2012 INSURER RATE REVIEW

Every year, Rhode Island health insurers propose premium increases for the small and large group markets. The Office of the Health Insurance Commissioner (OHIC) reviews these proposals, taking into account past company performance, market trends and, importantly, key benchmarks from around our region. OHIC commissioned Wakely Consulting Group to analyze certain metrics – administrative spending, medical trend, and surplus – from companies in other states, allowing OHIC to assess the reasonability of submissions from Rhode Island's health insurers. The results of this effort are presented in the following report.

In September 2012, OHIC released its approved rate decisions for each of the state's three largest commercial insurers. For more information on this decision, please visit **www.ohic.ri.gov**.

Key Regional Benchmarks

Wakely Consulting Group Study

July 19, 2012

Christopher Koller
Health Insurance Commissioner
Office of the Health Insurance Commissioner
State of Rhode Island
1511 Pontiac Ave
Bldg.69, Floor 1
Cranston, RI 02920

Subject: New England Group Health Plan Benchmarking

Dear Commissioner Koller:

Wakely Consulting Group, Inc. (Wakely) has been retained by the State of Rhode Island Office of the Health Insurance Commissioner (OHIC) to develop regional benchmarks of health care cost metrics and to compare those metrics to the corresponding Rhode Island values. As part of this engagement, an update of a similar study from 2011, Wakely obtained information from rate filings for health plans in Rhode Island, Massachusetts, Connecticut, Maine, and Vermont. The last two states are new for this year's report.

We relied on the information received to be complete and accurate. We did not audit the filings or the universe of information that may impact rates in any of the states, nor did we perform any analysis to determine the actuarial soundness of the values reported by the plans. We believe the benchmarks contained in this report are reasonable representations of the information submitted by health plans in the listed states. However, reliance on this report is at the sole discretion of OHIC.

Methodology

Financial Benchmarks

Similar to last year's report, financial benchmarking data was obtained from the NAIC annual statements (orange blank) for each of the respective years and companies. The following tables are identified by the chart and exhibit to which they apply and list each value's location in the financial statement.

Chart/Exhibit A		
Metric	**Annual Source (Page/Line)**	**Comments**
Revenue	Page 4, Line 8	Revenue includes premium, risk revenue, write-ins, etc.
Surplus	Page 3, Line 33	Actually Capital and Surplus. Includes stock, contributed surplus, unassigned funds, and write-ins.

Chart/Exhibit B		
Metric	**Annual Source (Page/Line)**	**Comments**
Revenue	Page 7, Line 7	Includes comprehensive products only, including all items under revenue listed in the prior table. Revenue is the denominator of the loss ratio and profit percentage calculations.
Profit Margin	N/A	= 1.0 - Administration Ratio - Loss Ratio

Chart/Exhibit C-1, C-2, C-3		
Metric	**Orange Blank Source (Page/Line)**	**Comments**
Revenue	Page 7, Line 7	Includes comprehensive products only, including all items under revenue listed in the prior table. Revenue is the denominator of the administration ratio calculation.
Total Hospital & Medical	Page 7, Line 17	The numerator of the loss ratio calculation. Includes all claim expenses and amounts paid under provider bonus arrangements, net of reinsurance.
Administration Expense	Page 7, Line 19 & Line 20	The numerator of the administration ratio calculation. Where appropriate, cost containment expenses are allocated.
Median PMPM Administration	Expenses: Page 7, Comprehensive Only Member Months: Exhibit of Enrollment, Premiums and Utilization	Member Months adjusted for quota-share reinsurance if appropriate.

Wakely derived the values underlying Chart/Exhibit D from premium rate filings to each state's respective reviewing agency. Because each agency is different, these filings are not as uniform as the financial statement data. Exhibit D shows the company-specific values and the median, which the authors used for the comparisons in the corresponding chart.

Results

The charts and exhibits to this report provide the benchmarking values and associated tables for the various metrics requested. The subsequent sections of the report discuss the methods used to summarize data and the limitations on its use. The table below outlines the information provided in the charts and tables.

Chart/Exhibit	Information Presented
A	Surplus as Percent of Revenue 2007 - 2011
B	Profit as Percent of Revenue 2007-2011
C-1	Medical Loss Ratio 2007 – 2011
C-2	Administrative Cost Ratios
C-3	Administrative Costs PMPM
D	Filed (Approved) Trend Rates by Service Category

Charts A - C and the corresponding exhibits are based on submissions by health plans on the NAIC "Orange Blank" annual statement. The reader should note that all figures from the Orange Blank, particularly incurred claim figures from the Analysis by Line of Business, could differ from 'actual' results because the statutory accounting for that page does not allow for restatement of prior claim liabilities, nor does it allow for removal of statutory margins in the claim liabilities.

The report compares other states' median Orange Blank values to the two companies filing Orange Blank statements in Rhode Island: United Healthcare New England (United) and Blue Cross Blue Shield of Rhode Island (BCBSRI). Tufts Health Plan, a third commercial carrier in the Rhode Island market, files its Orange Blanks in Massachusetts. The exhibits show the underlying values for the results displayed in the charts.

Measuring Insurer Surplus

Healthy surplus – the accumulated difference between expenses and revenue – can be an indicator of a solvent company and can be measured in two ways. **Chart A below** measures *surplus as a percent of revenue* (SAPOR), a metric that reflects an insurer's cash-based "cushion". In 2005, OHIC and the Lewin Consulting Group determined that an appropriate SAPOR range for health insurers in Rhode Island is between 23 and 30%[1]. The chart below shows that United's SAPOR has been on the higher end of this range, if not above, since 2007 and has been considerably higher than values for BCBSRI and the other four states in this report[2].

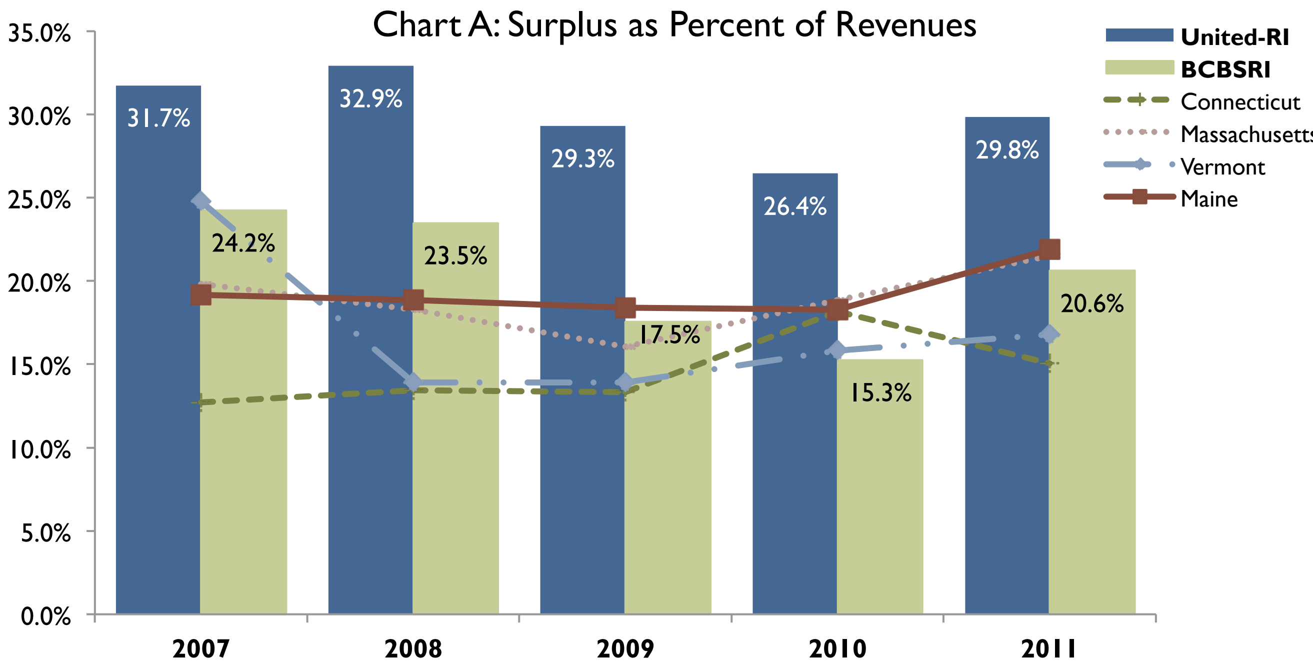

Exhibit A: Comparison of RI Surplus to Median Surplus by State by Year

Year	Connecticut	Massachusetts	Vermont	Maine	United-RI	BCBSRI
2007	12.7%	19.8%	24.8%	19.2%	31.7%	24.2%
2008	13.5%	18.3%	13.9%	18.9%	32.9%	23.5%
2009	13.3%	16.0%	13.9%	18.4%	29.3%	17.5%
2010	18.1%	18.9%	15.8%	18.3%	26.4%	15.3%
2011	15.1%	21.5%	16.8%	21.9%	29.8%	20.6%

Another way to measure surplus[3] is with Risk Based Capital (RBC), a ratio of a company's total capital to the amount it projects needing to pay its liabilities, such as claims and other expenses. United's RBC ratio has historically been higher than that of BCBSRI and the median value in other states. In 2011, United's ratio rose to 850% from 776% in 2010. BCBSRI's ratio rose to 610% from last year's 450%.

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[1]The Lewin Group, "Considerations for Appropriate Surplus Accumulation in the Rhode Island Health Insurance Market: Preliminary Findings", March 7 2006

[2] However, United's revenue reflects only 40% of gross direct revenue because of a quota share reinsurance arrangement.

[3] The total surplus as used in the charts and exhibits includes admitted assets less liabilities, as shown on line 33 of page 3 of the Orange Blank.

Insurer Annual Profit Margin

While SAPOR is a measure of the accumulated, more long-term financial health of a company, annual profit margins tell us how well a company performed in a given year. Chart B-2, below, shows the profit margin for each of the two Rhode Island health insurers covered in this filing, along with the median value for four other states. Because *profit* is measured annually and is driven primarily by how well companies can predict medical spending in a given year, there is notable variation year to year and company to company. For instance, BCBSRI's profit margins have been negative since 2009 but have ranged from -8.4% in 2010 to 2.0% in 2007. United's margins have been positive in every year except 2010, ranging from -0.1% to 6.9% in 2009.

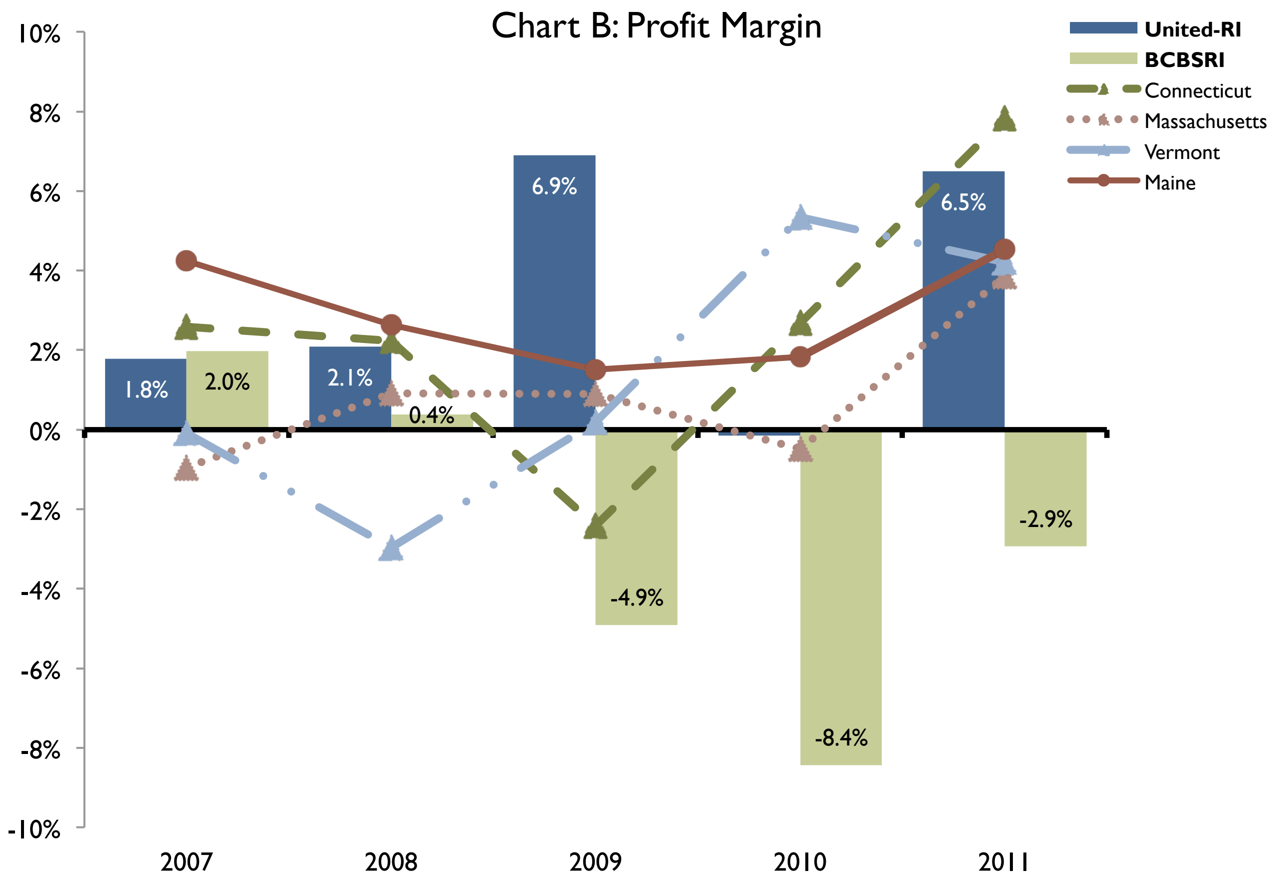

Exhibit B-2: Comparison of Profit Margin to Median by State by Year

Year	Profit Margin					
	Connecticut	Massachusetts	Vermont	Maine	United-RI	BCBSRI
2007	2.6%	-1.0%	-0.1%	4.2%	1.8%	2.0%
2008	2.2%	0.9%	-3.0%	2.6%	2.1%	0.4%
2009	-2.4%	0.9%	0.2%	1.5%	6.9%	-4.9%
2010	2.7%	-0.5%	5.3%	1.8%	-0.1%	-8.4%
2011	7.8%	3.9%	4.2%	4.5%	6.5%	-2.9%

Components of Spending: Medical Care and the Medical Loss Ratio (MLR)

Profit margins are driven by a company's ability to manage its expenses relative to its revenue. The largest expense for any health insurance company is the cost of medical claims for its members. The Medical Loss Ratio, or MLR, measures how much of its premium a company spends on these claims, rather than administrative costs or contributions to surplus, and is an indicator of health plan efficiency. Higher ratios indicate efficient operations, though ratios above 100% mean that a company spends more on medical claims that it receives in premium. Chart C-1 below, which is based on commercial business only, shows that United's medical loss ratio has been lower than those of BCBSRI and the medians in other states for all years shown.

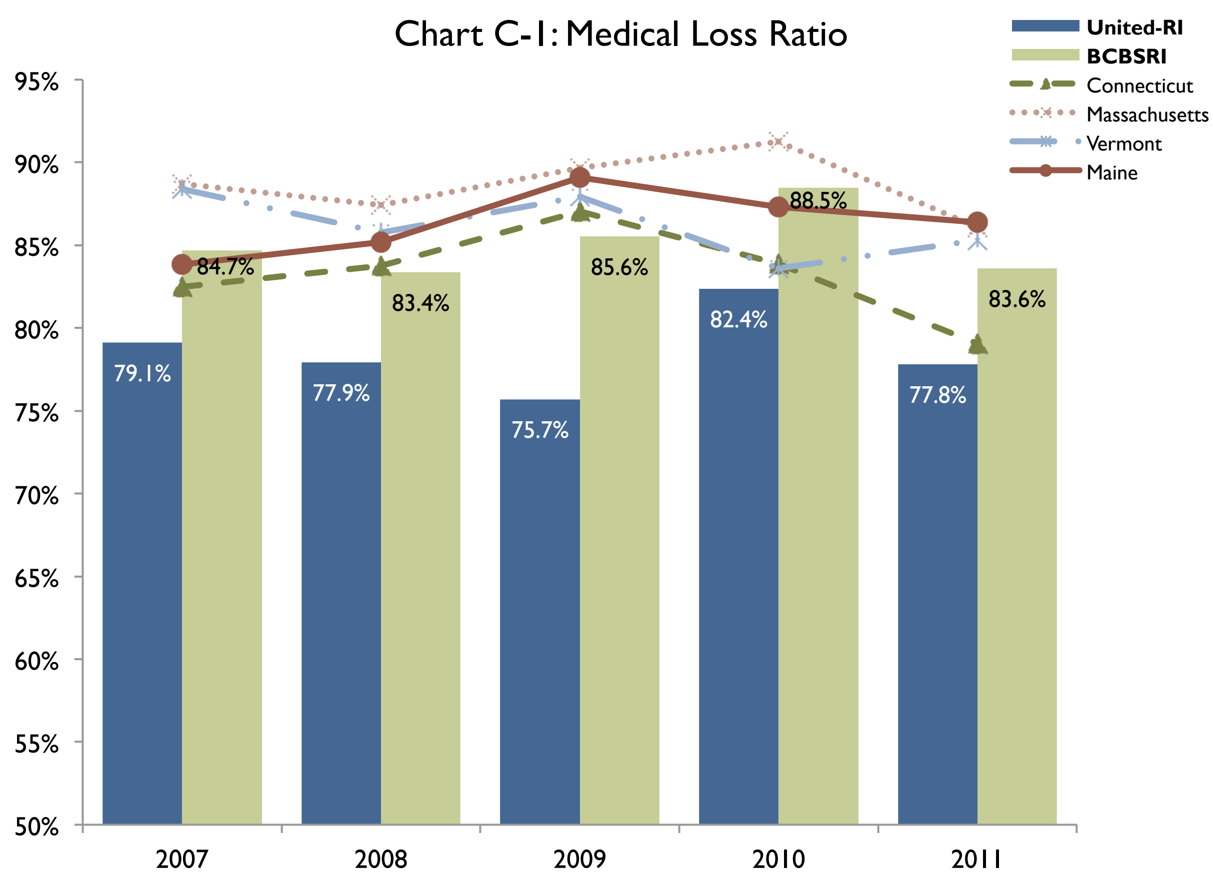

Exhibit B-1: Comparison of RI Medical Loss Ratio to Median by State by Year

Year	Medical Loss Ratio					
	Connecticut	Massachusetts	Vermont	Maine	United-RI	BCBSRI
2007	82.5%	88.7%	88.4%	83.8%	79.1%	84.7%
2008	83.7%	87.4%	85.8%	85.2%	77.9%	83.4%
2009	87.1%	89.7%	87.9%	89.1%	75.7%	85.6%
2010	83.9%	91.3%	83.6%	87.3%	82.4%	88.5%
2011	79.1%	86.1%	85.3%	86.4%	77.8%	83.6%

Components of Spending: Administrative Spending and the Administrative Cost Ratio

After medical claims, the next largest component of insurer spending is general its administrative costs, which cover items such as payroll, claims review, taxes, and technology upgrades. Chart C-2 below shows the ratio of administrative costs to revenue for commercial business. From 2008-2011, BCBSRI had the highest administrative cost ratio, averaging about 19% over the last three years. Part of its rise since 2007 is due to a large investment in a new technology system, as well as demographic and taxing changes. United's ratio dropped significantly in 2011, but both RI companies remained higher than the other states. OHIC expects these ratios to fall further in the next year, based on preliminary data.

Because the ratios below measure commercial premiums relative to costs, difference between companies, and between years, could reflect differences in spending and/or premiums Also, because Wakely independently completed these calculations using publically available information, methods and results may vary slightly from the data the companies reported to OHIC.

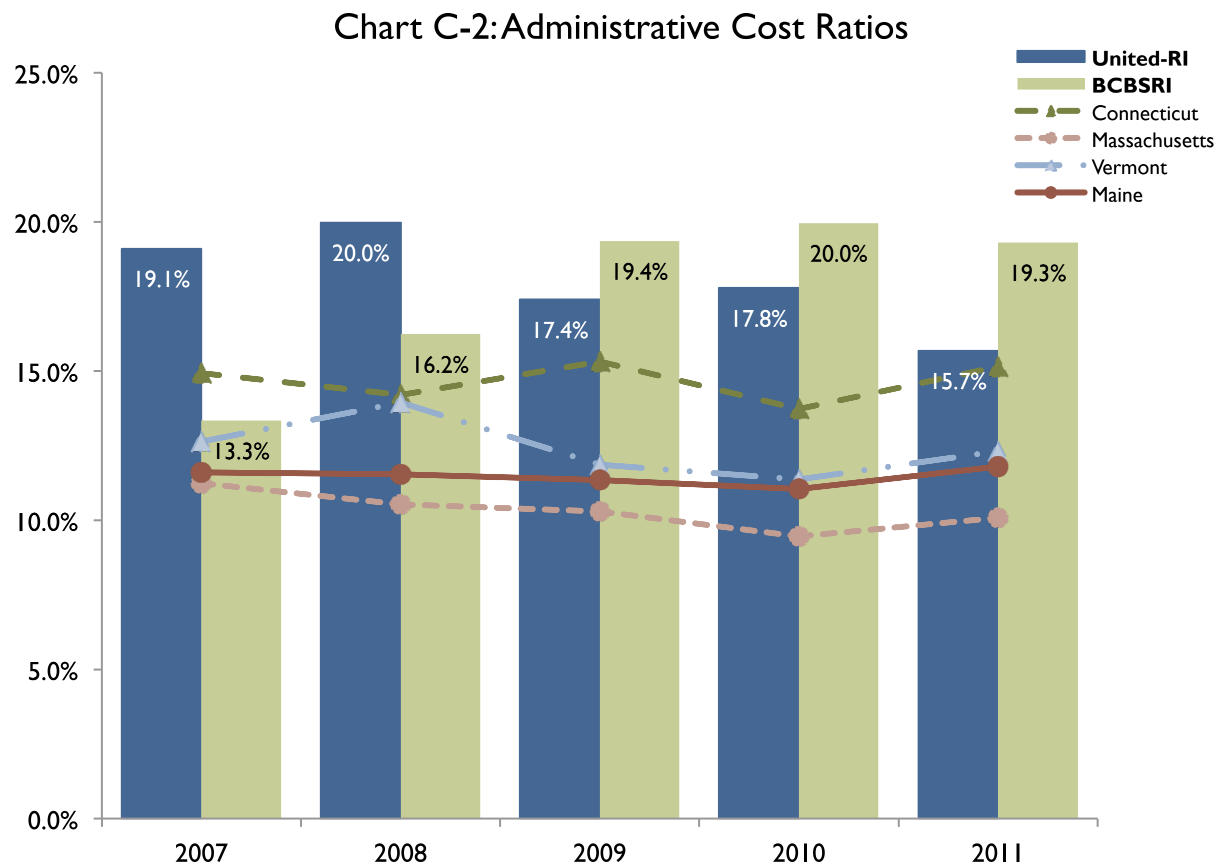

Exhibit C-1: Comparison of RI Administration to Median by State by Year

	Administration Ratio					
Year	Connecticut	Massachusetts	Vermont	Maine	United-RI	BCBSRI
2007	14.9%	11.2%	12.6%	11.6%	19.1%	13.3%
2008	14.2%	10.5%	14.0%	11.6%	20.0%	16.2%
2009	15.3%	10.3%	11.9%	11.4%	17.4%	19.4%
2010	13.7%	9.5%	11.4%	11.0%	17.8%	20.0%
2011	15.1%	10.1%	12.3%	11.8%	15.7%	19.3%

Components of Spending: Administrative Spending and the Administrative Cost Ratio

Chart C-3 below shows the differences in actual spending on administrative costs, per member, per month (PMPM) in 2011. Compared to BCBSRI, United had both a lower administrative spending ratio and lower PMPM spending for its RI-domiciled company. Because United's PMPM spending is below all comparator states, its relatively higher administrative spending ratio by be driven by higher premiums relative to those in the comparator states.

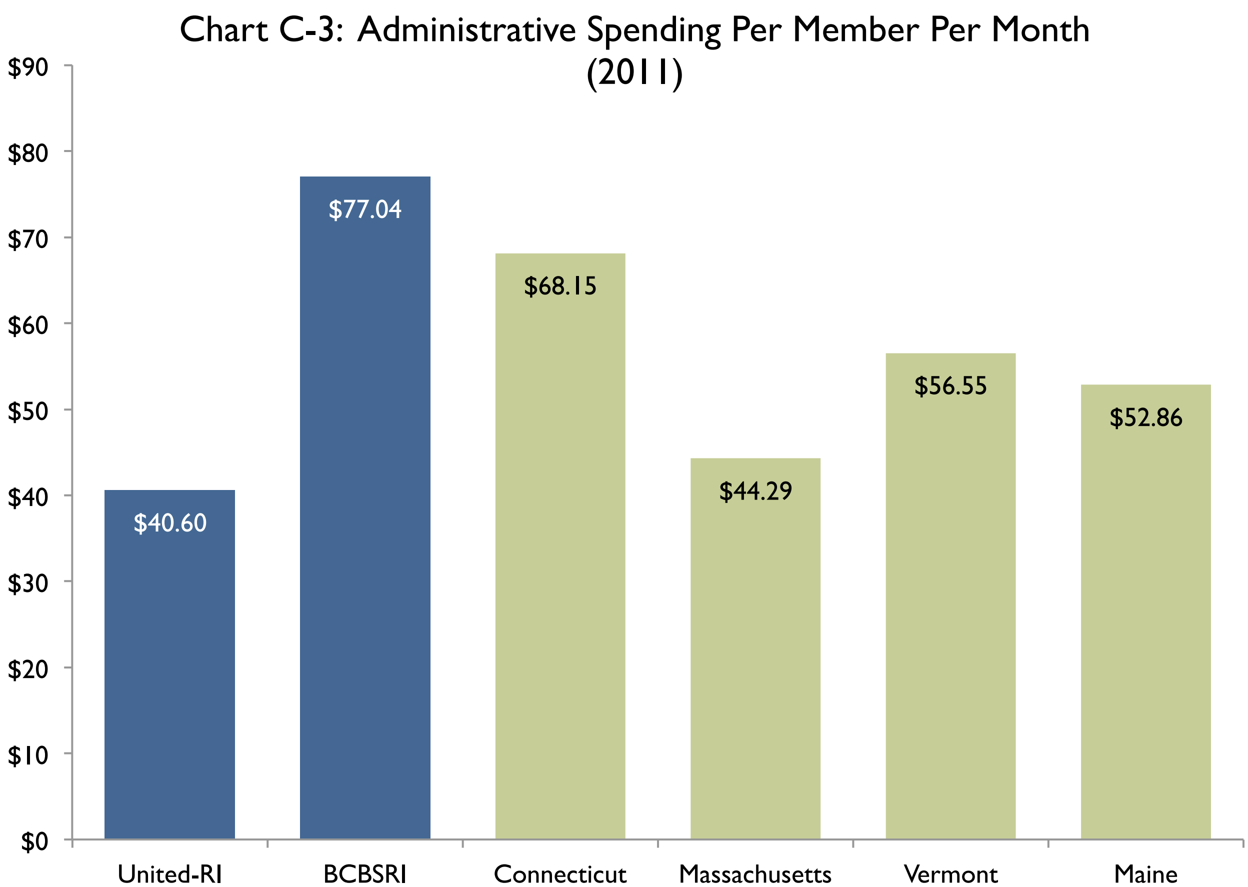

Exhibit C-2: Comparison of RI Companies to State Medians (PMPM Basis)

Year	Administration Costs					
	Connecticut	Massachusetts	Vermont	Maine	United-RI	BCBSRI
2011	$68.15	$44.29	$56.55	$52.86	$40.60	$77.04

Medical Spending Breakdown: Trends by Service Categories

How do each of the types of medical spending – hospital, physician, prescription, etc. – affect the total medical trend, and how do those results vary by state? The data shown in Chart D below are drawn from the most recent rate filings in each state, as opposed to financial statements, and show the expected percentage annual change in spending on each category between. Rhode Island's trends are about average relative to the median values in other states, except for slightly higher physician and prescription trend.

It is important to note that filing rules can vary greatly by state. Some filings did not explicitly separate the trend components into the categories shown below. In some instances Wakely inferred the factors from other data available in the filing. Maine requires its insurers to report only an overall trend, as shown in Exhibit D and Table D4 below. Therefore, the categorical trends for Maine are not directly comparable to other states and are provided as reference.

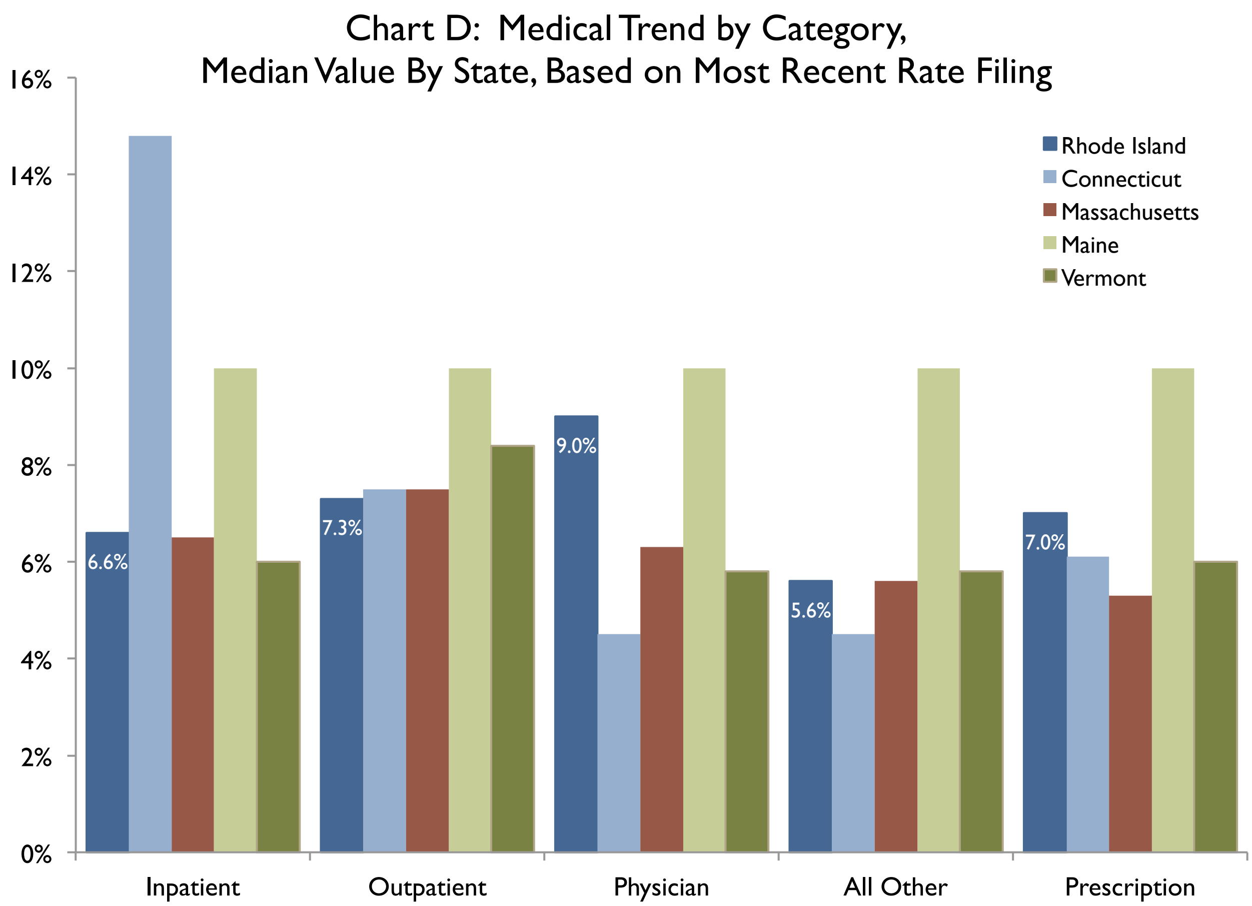

Exhibit D – Trend Rates by State

Table D1: Rhode Island Group Trend Rates

Category	BCBSRI LG	BCBSRI SG	United LG	United SG	Tufts LG	Tufts SG	Median
IP	6.6%	6.5%	7.2%	7.0%	5.2%	5.2%	6.6%
OP	7.3%	7.3%	14.1%	14.0%	6.7%	6.7%	7.3%
Physician	10.2%	11.5%	9.0%	8.9%	5.4%	5.4%	9.0%
All Other	5.0%	6.2%	7.9%	8.3%	4.7%	4.7%	5.6%
Rx	6.5%	7.5%	12.4%	12.3%	4.7%	4.7%	7.0%

Table D2: Connecticut Group Trend Rates

Category	Aetna SG	Anthem	Median
IP	14.6%	15.0%	14.8%
OP	14.6%	0.4%	7.5%
Physician	6.8%	2.2%	4.5%
All Other	6.8%	2.2%	4.5%
Rx	9.2%	3.0%	6.1%

Table D3: Massachusetts Group Trend Rates

Category	BCBS LG - HMO	BCBS SG - HMO	BCBS LG - PPO	BCBS SG - PPO	Fallon LG
IP	7.1%	9.7%	7.2%	9.8%	5.4%
OP	7.4%	10.0%	7.5%	10.2%	14.0%
Physician	6.8%	10.0%	6.7%	10.2%	5.9%
All Other	5.1%	7.1%	5.5%	7.6%	14.0%
Rx	5.3%	7.6%	5.3%	7.6%	12.9%

Category	Fallon SG	Harvard Pilgrim LG	Harvard Pilgrim SG	Neighborhood LG	Neighborhood SG
IP	6.3%	-3.3%	4.9%	5.2%	3.3%
OP	11.0%	-4.1%	5.5%	-0.7%	-1.3%
Physician	6.2%	2.4%	5.5%	-0.7%	-1.3%
All Other	11.0%	2.2%	5.6%	-0.7%	-1.3%
Rx	10.5%	-2.0%	3.5%	0.4%	1.4%

Category	Tufts LG - HMO	Tufts SG - HMO	Tufts SG - PPO	United	Median
IP	10.5%	6.5%	6.5%	9.9%	6.5%
OP	8.5%	7.0%	7.0%	9.9%	7.5%
Physician	7.2%	6.3%	6.3%	9.9%	6.3%
All Other	9.5%	2.6%	2.6%	9.9%	5.6%
Rx	6.6%	3.0%	3.0%	7.7%	5.3%

Table D4: Maine Group Trend Rates

Category	Aetna LG HMO	Aetna SG PPO	Anthem LG	Anthem SG HMO	Anthem SG PPO	United SG PPO & POS	Median
Total	0.4%	11.0%	4.9%	9.8%	10.1%	12.5%	10.0%

Table D5: Vermont Group Trend Rates

Category	BCBS SG&LG	BCBS SG Community	CT General LG OAP	CT General LG PPO	CT General LG Network
IP	4.6%	4.8%	7.1%	6.1%	8.1%
OP	8.4%	4.8%	10.2%	13.4%	11.3%
Physician	-0.1%	4.8%	9.2%	11.2%	10.2%
All Other	4.8%	4.8%	14.5%	17.7%	15.6%
Rx	4.0%	7.3%	7.1%	7.1%	7.1%

Category	MVP Maj Med	MVP HMO	TVHP SG	TVHP LG	Median
IP	7.8%	6.0%	5.8%	5.6%	6.0%
OP	8.9%	6.0%	5.8%	5.6%	8.4%
Physician	8.2%	4.2%	5.8%	5.6%	5.8%
All Other	8.2%	4.2%	5.8%	5.6%	5.8%
Rx	5.7%	6.0%	2.9%	2.9%	6.0%

Limitations

As Wakely did not compile the filings, we cannot make any statement regarding the accuracy or soundness of the values contained in the filings. Likewise, it is unlikely that all filings submitted by all companies are included in our study.

Additional limitations of this report include:

a) Certain values such as surplus and detailed expenses are reported at the company level only. Therefore for companies with multiple lines of business, values may not be directly applicable to group policies. Group health is the predominant business for most plans; however Tufts was split almost evenly commercial versus Medicare.

b) Filings may pertain to limited subsets of products and therefore may contain only a subset of the claims for the line-of-business.

c) Some health plans use the same trend for small group and large group. Therefore trend may actually be a blend of small group and large group experience.

d) Some plans include administrative costs as a flat PMPM amount across all products. As a result, products with rich benefits reflect a lower percentage of administrative costs than lean plans, such as high deductible plans.

e) Many of the values in this report are ratios that are based on mix of business. Changes in mix of business including geography, benefits, demographics, retention, or other factors affecting cost will impact the values in this report.

f) There may be additional plan-specific operational, provider-related, or other issues that could limit the applicability of the results of this report. We recommend any values that appear unreasonable be researched at the source (financial statements or rate filing) to determine if any anomalies exist.

We appreciate the opportunity to assist the Office of the Health Insurance Commissioner and look forward to discussing this report with you. If you have any questions, please feel free to contact me at the number below.

Sincerely,

George K. Hawkins Jr.

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Appendix 1

Tables of Profit and Loss Ratios
Calculated from Annual Statement Values
Figures Correspond to Exhibit B-1

Table B-1: Medical Loss and Profit Ratios - Connecticut

	Medical Loss Ratio			Profit Margin		
Year	25th	50th/Median	75th	25th	50th/Median	75th
2007	81.9%	82.5%	83.0%	1.6%	2.6%	4.9%
2008	83.5%	83.7%	84.1%	1.6%	2.2%	3.7%
2009	86.6%	87.1%	89.3%	-5.0%	-2.4%	-0.4%
2010	79.5%	83.9%	88.9%	-1.9%	2.7%	6.4%
2011	77.6%	79.1%	83.8%	-0.8%	7.8%	8.8%

Table B-2: Medical Loss and Profit Ratios - Massachusetts

	Medical Loss Ratio			Profit Margin		
Year	25th	50th/Median	75th	25th	50th/Median	75th
2007	84.9%	88.7%	91.6%	-1.5%	-1.0%	0.8%
2008	85.9%	87.4%	90.0%	-0.7%	0.9%	2.3%
2009	89.0%	89.7%	92.1%	-3.0%	0.9%	1.6%
2010	87.4%	91.3%	92.0%	-1.3%	-0.5%	1.4%
2011	85.3%	86.1%	87.6%	1.6%	3.9%	4.9%

Table B-3: Medical Loss and Profit Ratios - Vermont

	Medical Loss Ratio			Profit Margin		
Year	25th	50th/Median	75th	25th	50th/Median	75th
2007	82.1%	88.4%	88.4%	-0.6%	-0.1%	2.1%
2008	85.2%	85.8%	87.4%	-3.3%	-3.0%	0.4%
2009	84.7%	87.9%	92.3%	-6.9%	0.2%	3.7%
2010	82.9%	83.6%	88.3%	-2.7%	5.3%	5.9%
2011	84.3%	85.3%	87.6%	-2.2%	4.2%	4.3%

Table B-4: Medical Loss and Profit Ratios - Maine

	Medical Loss Ratio			Profit Margin		
Year	25th	50th/Median	75th	25th	50th/Median	75th
2007	83.5%	83.8%	84.6%	2.7%	4.2%	5.9%
2008	83.9%	85.2%	86.5%	2.0%	2.6%	4.0%
2009	87.8%	89.1%	90.8%	-2.1%	1.5%	2.3%
2010	86.8%	87.3%	89.1%	-1.4%	1.8%	3.4%
2011	83.6%	86.4%	88.9%	-3.3%	4.5%	6.5%

Appendix 2

Tables of Administration Ratios
Calculated from Annual Statement Values
Figures Correspond to Exhibit C-1

Table C-1.1: Administration Ratio - Connecticut

	Percentile		
Year	25th	50th/Median	75th
2007	12.7%	14.9%	15.9%
2008	12.2%	14.2%	15.1%
2009	13.2%	15.3%	16.3%
2010	11.5%	13.7%	15.8%
2011	13.5%	15.1%	19.2%

Table C-1.2: Administration Ratio - Massachusetts

	Percentile		
Year	25th	50th/Median	75th
2007	9.4%	11.2%	14.7%
2008	9.7%	10.5%	12.5%
2009	8.5%	10.3%	11.7%
2010	8.3%	9.5%	11.2%
2011	8.5%	10.1%	11.1%

Table C-1.3: Administration Ratio - Vermont

	Percentile		
Year	25th	50th/Median	75th
2007	12.1%	12.6%	16.2%
2008	12.9%	14.0%	16.0%
2009	11.7%	11.9%	14.6%
2010	11.2%	11.4%	14.5%
2011	11.4%	12.3%	15.5%

Table C-1.4: Administration Ratio - Maine

	Percentile		
Year	25th	50th/Median	75th
2007	10.4%	11.6%	12.6%
2008	9.8%	11.6%	13.2%
2009	9.8%	11.4%	13.3%
2010	9.1%	11.0%	13.3%
2011	9.6%	11.8%	17.5%